

Financial Statements

**Northern Lakes Community
Mental Health Authority**
September 30, 2006



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Northern Lakes Comm. Mental Health	County Grand Traverse
Fiscal Year End 9/30/06	Opinion Date 1/17/07	Date Audit Report Submitted to State 3/13/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

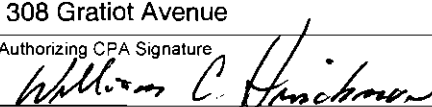
SE 2

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is **UNQUALIFIED**.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Roslund, Prestage & Company, PC		Telephone Number 989-463-6123	
Street Address 308 Gratiot Avenue		City Alma	State MI
Authorizing CPA Signature 		Printed Name William C. Hirschman	Zip 48801
		License Number 1101016179	

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INDEPENDENT AUDITOR'S REPORT

Northern Lakes Community Mental Health Authority
Traverse City, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northern Lakes Community Mental Health Authority (the Authority), as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority as of September 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 17, 2007 on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the other supplemental financial information listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 17, 2007

MANAGEMENT DISCUSSION AND ANALYSIS

Northern Lakes Community Mental Health Authority
Financial Statements for the Fiscal Year Ended September 30, 2006
Management's Discussion and Analysis

Introduction

The management of Northern Lakes Community Mental Health Authority (NLCMHA) presents the following overview and analysis of financial activities during the past fiscal year. NLCMH was created as a Mental Health Authority effective October 1, 2003 by the joint actions of Boards of Commissioners for the following counties in the State of Michigan: Crawford, Grand Traverse, Leelanau, Missaukee, Roscommon and Wexford. Northern Lakes Community Mental Health Authority replaced the former Great Lakes Community Mental Health and North Central Community Mental Health as a merged organization.

Basic Financial Statement

Two types of financial statement are provided: **Government – Wide Statements** and **Fund Statements**.

The **Government-wide** statements are designed to provide readers with a broad overview of the organization's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information of all of NLCMHA's assets and liabilities with the difference between assets and liabilities being reported as net assets. Changes in net assets serve as a useful indicator in determining whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how net assets changed during the fiscal year. Reporting of activities is on an *accrual* basis meaning that the change in net assets is reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related movement of cash.

The **Fund Statements** report groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. NLCMHA, as a governmental authority, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

These funds are divided into two categories: governmental funds and proprietary funds.

Governmental funds has a narrower focus than that of the government-wide financial statement in that its focus is on the short-term movement of expendable resources and on the balances of expendable resources available at the end of the fiscal year.

Northern Lakes Community Mental Health Authority
Financial Statements for the Fiscal Year Ended September 30, 2006
Management's Discussion and Analysis

Proprietary funds are internal service funds which are held as a self-insurance against future risk. These funds consist of State of Michigan Medicaid and General Funds and accumulated interest that must be held for future risk or used to provide authorized services to eligible persons.

The accompanying Notes to Financial Statements are an integral part of our financial statements. They give the opportunity to expound on any account, activity, or area that clarification would be beneficial or required. The notes report our policies, compliance, and responsibilities of not only the current audited year but also of responsibilities we have entered into.

Comparison with Prior Year

The average daily cash balance was \$15,579,015 during the fiscal year, which was a little greater than a 25% increase over the previous year's average of \$12,404,486. Cash on hand averaged 27% of annual spending which also was significantly higher than the prior year. Driving much of the increase was the QAAP tax which is basically a sales tax on services provided which is made available or paid to the State each quarter. The increased cash flow along with increased interest rates has had a positive financial outcome for NLCMHA.

The significant change in non current assets relates to the Traverse City office building. In the previous fiscal year, NLCMHA settled an audit exception with the State of Michigan related to the building. Instead of being able to charge rent as an expense for the building, NLCMHA must depreciate the cost of the building. The value of land is not depreciable, making its cost non-chargeable to funding from the State and Medicaid.

The current liabilities were reduced in the area of community inpatient services due to a reduction in the amount of incurred but not received charges. While there is still processing problems, such as lack of contracts and authorizations, there has been a gradual improvement in claims information available for processing which has led to this change.

The net assets changed as a result of designating the un-funded pension liability, replenishing the Medicaid Internal Service Fund and the recognition of the Traverse City office building. The remaining undesignated fund balance is lower than desired, but still enough to meet most projected risks. Approximately \$600,000 of the growth in the Medicaid Internal Service Fund is reserved net

Northern Lakes Community Mental Health Authority
Financial Statements for the Fiscal Year Ended September 30, 2006
Management's Discussion and Analysis

assets were planned for by the Northwest affiliation. Given the history of services of the affiliation and the number of times in which the risk corridor was exceeded or General Funds were used to pay for Medicaid services, it was considered a prudent and necessary move. With a higher Medicaid Internal Service Fund, more time can be used to plan changes when faced with inadequate Medicaid funding. During the year, it was also not necessary for West Michigan to utilize all the sub-capitation amount of dollars available to it for Medicaid services, adding another \$540,000 to this area of funding. In FY2006 Northern Lakes lost all its protection for general fund overages through the utilization of its general fund reserve. However, Northern Lakes did not spend approximately \$150,000 of it's budgeted Medicaid. The result is the entire reserve in net assets is now only available for qualified services to people with Medicaid coverage.

For the first time in three years of operation, revenues exceeded expenditures in total, which ended up increasing the net asset reserve. In the case of State funds, Medicaid, and Grants, dollars not used for services or reserves are consider "lapse" and revert back to the funding source. Since NLCMHA used all of the excess Medicaid dollars to create reserves, there was no lapse of dollars in that area. Most grants were fully expended, but several were not fully utilized.

Expenditures increased significantly to cover both new services and the QAAP tax. Personnel costs increased after declining in FY2005 with the addition of 12 staff employed to provide services and manage access to services. Most of the expanded Medicaid funding was used to add services through contract agencies, hospitals and residential care providers.

Northern Lakes Community Mental Health Authority
Financial Statements for the Fiscal Year Ended September 30, 2006
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**Chart Comparison With Prior Years
Fiscal Year Ended 9/30/2005**

	Northern Lakes CMHA Fiscal Year Ended 9/30/2006	Northern Lakes CMHA Fiscal Year Ended 9/30/2005	Northern Lakes CMHA Fiscal Year Ended 9/30/2004
Assets			
Current Assets	\$14,186,737	\$11,574,620	\$11,467,002
Non Current Assets	\$10,642,915	\$5,251,060	\$5,123,771
Total Assets	\$24,829,652	\$16,825,680	\$16,590,773
Liabilities			
Current Liabilities	\$4,602,603	\$4,326,442	\$3,709,031
Non Current Liabilities	\$6,249,035	\$1,122,266	\$1,044,326
Total Liabilities	\$10,851,638	\$5,448,708	\$4,753,357
Net Assets			
Invested in Capital Assets	\$4,110,561	\$4,184,666	\$4,018,733
Restricted	\$2,917,286	\$1,964,509	\$2,631,396
Designated Funds	\$2,989,495		
Unreserved Undesignated	\$3,960,672	\$5,227,797	\$5,187,287
Total Net Assets	\$13,978,014	\$11,376,972	\$11,837,416
Revenues			
State Grants	\$9,998,562	\$9,464,844	\$10,379,989
Federal Grants	\$1,144,978	\$761,326	\$878,256
County Appropriations	\$1,053,393	\$1,069,283	\$991,723
Charges for Services	\$44,852,631	\$35,136,776	\$33,985,673
Interest, Rents, and Other	\$813,429	\$589,943	\$226,601
Total Revenues	\$57,862,993	\$47,022,172	\$46,487,816
Expenditures			
Personnel Costs	\$15,692,875	\$14,843,214	\$15,429,160
Operating Expenditures	\$39,233,537	\$31,923,612	\$31,065,873
Debt Service Principal and Interest	\$521,573	\$67,448	\$71,255
Capital Outlays	\$670,756	\$488,488	\$413,323
Total Expenditures	\$56,118,741	\$47,322,762	\$46,979,611
Revenues Over (Under) Expenditures	\$1,744,252	(\$300,590)	(\$491,795)

The revenues and expenditures displayed have been updated to reflect the accrual basis of accounting.

Northern Lakes Community Mental Health Authority
Financial Statements for the Fiscal Year Ended September 30, 2006
Management's Discussion and Analysis

Strength of Financial Position

Changes in financial position, which help ensure the agency's future ability to provide services were:

1. Developed and implemented a new approach to cost allocation by tracking providers of services both in terms of cost and service information consistent with methodologies used for grant usage determination.
2. Developed a long term plan for facility usage that includes goals for dealing with the Traverse City building consistent with how its costing was resolved with the Michigan Department of Community Health.
3. Increased the Medicaid Internal Service Fund and total Fund Balance and designated the Fund Balance to reflect the un-funded pension liability.
4. Deposited an additional \$1,400,000 into the under-funded defined benefit pension from the former Great Lakes Community Mental Health Authority.
5. Implemented a new information system that has clinical workstation and scheduling components that can be used by providers to begin the long road toward building electronic health records.
6. Provided a number of increases to some providers under contract who have gone without increases for a number of years.

Change in Budget during the Fiscal Year:

In June of 2006, the Northern Lakes Community Mental Health Board accepted a recommendation to modify its budget by increasing \$1.3 million for contract agencies, residential and inpatient services, QAAP Tax, and building maintenance. Some of the expansions were offset by reductions made in transportation costs and personnel resulting from the transfer of services from NLCMHA's Bridgeway program to the Hope Network contract agency, although on an overall basis, costs for this service area increased. The desired outcome of more employment opportunities is anticipated to be realized in FY2007.

About the Future

NLCMHA receives the vast majority of funding from the State of Michigan either through Medicaid (State and Federal funding), General Funds, or specific grants. The State of Michigan is in a financial crisis and the best NLCMHA can probably

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hope for is no loss in funding in the future. Beyond the problems of the State of Michigan, NLCMHA did lose over 8% of its State General Funds during the 2006 fiscal year through a State funding cut. The combination of this funding loss and the increased usage of State inpatient services have had dramatic and immediate financial consequences for NLCMHA. In order for NLCMHA to provide services within its current funding array, many adjustments will need to be made to how services are made available to people without Medicaid coverage. In addition, there needs to be a reduction in expenses that are not allowed under the Medicaid program for people with Medicaid coverage. If Northern Lakes is not successful in making changes, it will find itself overspending General Funds and under spending available Medicaid. In the 2007 fiscal year that is already almost guaranteed, so budget provisions have been made to use local dollars to subsidize General Funds for the year. This cannot be a long term solution as local funds are limited and needed to invest in areas where long term investments can lower on going funding needs.

In FY2008, it is anticipated that the state wide Medicaid re-basing may lower the amount of Medicaid available for the Northwest Affiliation. While the affiliation did increase spending and services to people with Medicaid coverage, the state-wide increase appears to be larger at least on a percentage basis. How much impact that will have depends on the work of the actuarial firm hired by the Michigan Department of Community Health. The Internal Service Fund will give the affiliation at least some breathing room to deal with reductions in available Medicaid service dollars.

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006 AND 2005

	Governmental Activities	
	2006	2005
Assets		
Current Assets		
Cash and Cash Equivalents	\$7,086,138	\$5,769,333
Investments	5,747,677	4,781,403
Accounts Receivable	542,585	162,761
Due from Other Governmental Units	791,546	841,932
Security Deposits	18,791	19,191
Total Current Assets	14,186,737	11,574,620
Noncurrent Assets		
Cash and Cash Equivalents - Restricted	1,141,917	881,906
Capital Assets - Depreciable, Net	9,500,998	4,369,154
Total Assets	24,829,652	16,825,680
Liabilities		
Current Liabilities		
Accounts Payable	\$2,721,188	3,128,378
Deferred Revenue	-	316,638
Due to Other Governmental Units	1,046,315	210,795
Accrued Wages and Other Payroll Liabilities	464,080	575,115
Other Liabilities	31,098	65,854
Current Portion of Long-Term Debt	339,922	29,662
Noncurrent Liabilities		
Compensated Absences	1,198,520	967,440
Notes Payable	5,050,515	154,826
Total Liabilities	10,851,638	5,448,708
Net Assets		
Invested in Capital Assets, Net of Related Debt	4,110,561	4,184,666
Restricted for:		
Risk Management	2,917,286	1,964,509
Unrestricted	6,950,167	5,227,797
Total Net Assets	\$13,978,014	\$11,376,972

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006, WITH COMPARATIVE DATA

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes Net Assets	2005
		Charges for Services	Operating Grants and Contributions		
Governmental Activities					
Health & Welfare - Mental Health	<u>\$56,118,741</u>	<u>\$44,852,631</u>	<u>\$12,402,255</u>	\$1,136,145	(\$602,893)
General Revenues					
Unrestricted Investment Earnings				557,946	247,306
Restricted Investment Earnings				<u>50,161</u>	<u>54,997</u>
Total General Revenues and Contributions				<u>608,107</u>	<u>302,303</u>
Change in Net Assets				1,744,252	(300,590)
Prior Period Adjustments				856,790	(159,854)
Net Assets - October 1				<u>11,376,972</u>	<u>11,837,416</u>
Net Assets - September 30				<u>\$13,978,014</u>	<u>\$11,376,972</u>

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006 AND 2005

	General Fund	
	2006	2005
Assets		
Cash And Cash Equivalents	\$7,086,138	\$7,567,521
Cash And Cash Equivalents - Restricted	1,141,917	881,906
Investments	5,747,677	2,983,215
Accounts Receivable	542,585	162,761
Due From Other Governmental Units	791,546	841,932
Security Deposits	18,791	19,191
Total Assets	\$15,328,654	\$12,456,526
Liabilities		
Accounts Payable	\$2,721,188	\$3,128,378
Deferred Revenue	-	316,638
Due to Other Funds	2,917,286	1,964,509
Due to Other Governmental Units	1,046,315	210,795
Accrued Wages and Other Payroll Liabilities	464,080	575,115
Other Liabilities	31,098	65,854
Total Liabilities	7,179,967	6,261,289
Fund Balance		
Reserved for:		
Security Deposits	18,791	19,191
Unreserved:		
Designated for Unfunded Portion of Pension Plan	2,989,495	-
Undesignated	5,140,401	6,176,046
Total Fund Balance	8,148,687	6,195,237
Total Liabilities and Fund Balance	\$15,328,654	\$12,456,526

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Total fund balance - governmental funds	\$8,148,687
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	15,095,503
Deduct: accumulated depreciation	(5,594,505)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Deduct: Loans payable	(5,390,437)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: net assets of governmental activities accounted for in the internal service fund	2,917,286
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of:	
Deduct: Compensated absences	(1,198,520)
Net assets of governmental activities	<u>\$13,978,014</u>

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006 AND 2005

Revenues	General Fund	
	2006	2005
State Grants		
Department of Community Health Contract	\$6,450,697	\$6,060,337
Adult Benefit Waiver	619,753	596,417
MI Child	41,651	40,619
Title XX	9,002	9,002
Food Stamps	32,114	37,427
Birchwood	336,034	336,034
Elderly Waiver	2,237,019	2,121,529
Alzheimers Grant	16,651	16,652
Respite	100,000	100,005
PAS / ARR Grant	148,777	146,822
DCH Block Grants - Other	6,864	-
Total State Grants	9,998,562	9,464,844
Federal Grants		
DCH Block Grants	363,926	182,346
Path Homeless Housing	225,128	104,414
YESS	109,591	-
Case Management	-	34,100
PAS / ARR Grant	446,333	440,466
Total Federal Grants	1,144,978	761,326
Contributions - Local Units		
County Appropriations	1,053,393	1,069,283
Charges for Services		
Medicaid	44,066,589	34,139,169
Medicaid - CMW	278,699	274,006
Client and Third Party Pay	507,343	723,601
Total Charges for Services	44,852,631	35,136,776
Interest and Rents		
Interest	557,946	247,306
Other Revenue	205,322	287,640
Total Revenues	57,812,832	46,967,175

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006 AND 2005

Expenditures	General Fund	
	2006	2005
Health & Welfare - Mental Health		
Personnel Expenditures	\$15,692,875	\$14,843,214
Operating Expenditures	39,233,537	31,923,612
Capital Outlay	5,786,951	550,626
Debt Service - Principal	215,431	56,905
Debt Service - Interest	306,142	10,543
Total Expenditures	<u>61,234,936</u>	<u>47,384,900</u>
Revenues Over (Under) Expenditures	(3,422,104)	(417,725)
Other Financing Sources (Uses)		
Loan Proceeds	5,421,380	-
Transfers In (Out) - Internal Service Fund	<u>(957,675)</u>	<u>271,449</u>
Total Other Financing Sources (Uses)	4,463,705	271,449
Excess Of Revenues And Other Sources Over Expenditures And Other Uses	1,041,601	(146,276)
Fund Balance, October 1	6,195,237	6,501,367
Prior Period Adjustment	<u>911,849</u>	<u>(159,854)</u>
Fund Balance, September 30	<u>\$8,148,687</u>	<u>\$6,195,237</u>

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Net change in fund balances - total governmental funds	\$1,041,601
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: capital outlay	5,786,951
Deduct: depreciation expense	(648,283)
Deduct: loss on disposal of assets	(6,824)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.	
Add: interest income	50,161
Less: transfers in	1,335,559
Add: transfers out	(377,884)
Fixed assets acquired by long term loans are shown as an expenditure and other financing source in the governmental funds. The other financing source must be removed from the statement of activities; principal payments are applied to the long term liability; interest expense is recognized as it accrues.	
Deduct: loan proceeds	(5,421,380)
Payment of principal on long-term debt is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	
Add: principal paid on notes payable	215,431
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the funds.	
Less: increase in accrual for compensated absences	(231,080)
Change in net assets of governmental activities	<u>\$1,744,252</u>

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2006 AND 2005

		Internal Service Fund	
		2006	2005
Assets			
Due From Other Funds		<u>\$2,917,286</u>	<u>\$1,964,509</u>
Net Assets			
Restricted		<u>\$2,917,286</u>	<u>\$1,964,509</u>

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006 AND 2005

	Internal Service Fund	
	2006	2005
Non-Operating Income		
Interest	\$50,161	\$54,997
Operating Transfers In (Out)		
Operating Transfers In (Out) - General Fund	957,675	(271,449)
Total Operating Transfers In (Out)	957,675	(271,449)
Change in Net Assets	1,007,836	(216,452)
Net Assets, Beginning of Year	1,964,509	2,180,961
Prior Period Adjustment	(55,059)	-
Net Assets, End of Year	<u>\$2,917,286</u>	<u>\$1,964,509</u>

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006 AND 2005

	Internal Service Fund	
	2006	2005
Cash Flows From Operating Activities		
Adjustment To Reconcile Net Income		
To Net Cash Provided By Operating Activities:		
(Increase) Decrease In:		
Due From Other Funds	(\$952,777)	\$216,452
Cash Flows From Investing Activities		
Interest Revenue	50,161	54,997
Cash Flows From Capital And Related Financing Activities		
Operating Transfers In (Out) - Prior Periods	(55,059)	471,169
Operating Transfers In	1,335,559	-
Operating Transfers (Out)	(377,884)	(742,618)
Total Cash Flows From Capital And Related Financing Activities	902,616	(271,449)
Net Increase In Cash And Cash Equivalents	-	-
Cash And Cash Equivalents, Beginning of Year	-	-
Cash And Cash Equivalents, End of Year	-	-
Reconciliation of Operating Income To Net Cash Provided		
By (Used for) Operating Activities:		
Operating Income (Loss)	-	-

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Northern Lakes Community Mental Health (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

Reporting Entity

The Authority operates under the provisions of Act 258 - Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of Crawford, Grand Traverse, Leelanau, Missaukee, Roscommon, and Wexford Counties who meet eligibility and other criteria. As the community mental health services provider for the above mentioned counties, the Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority.

Based on the application of the criteria, the Authority does not contain any component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide Financial Statements - The government-wide financial statements (statement of net assets and statement of activities) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within one year of the end of the current fiscal year period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Intergovernmental revenue, charges for services and other revenues associated with the current fiscal period are all considered susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at year end has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Authority reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

The Authority adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Receivables and Payables between Funds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due/to other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts. Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and the State of Michigan.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year. Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings and Improvements	10-40
Equipment and Furnishings	3-10
Computer Equipment	3-5
Software	3-5
Vehicles	5
Land	Not Depreciated

Restricted Assets

Cash has been restricted for future payment of the compensated absences liability. These restricted assets are held in a separate cash account with local financial institutions.

Inpatient / Residential Cost Liability

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated amount due to reimbursements from third party payers that are applied to the total cost before the billings are sent to the Authority.

Deferred Revenue

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Net Assets and Fund Balances

Restricted net assets shown in the government-wide financial statements will generally be different from amounts reported as reserved/designated fund balances in the governmental funds financial statements. This occurs because of differences in the measurement focus and basis of accounting used in the government-wide and fund financial statements and because of the use of funds to imply that restrictions exist.

Fund Balances - Reserves and Designations

Fund balances in the governmental funds financial statements are reported as reserved when a portion of fund balance is either:

- Not available for appropriation for expenditure, or
- Legally segregated for a specific future use.

Fund balances in the governmental funds financial statements may be reported as designated to reflect management's self-imposed limitations on the use of otherwise available financial resources. Designations represent management's intended use of resources and should reflect actual plans approved by them.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Net Assets - Restrictions

Net assets in the government-wide financial statements are reported as restricted when constraints placed on net assets use is either:

- Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

MDCH Revenue

General Fund Revenue

The Authority provides mental health services on behalf of the Michigan Department of Community Mental Health (MDCH). Currently, the Authority contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Crawford, Grand Traverse, Leelanau, Missaukee, Roscommon, and Wexford Counties.

Medicaid Revenue

Also, Northern Lakes Community Mental Health Authority serves as the Pre-Paid Inpatient Health Plan (known as Northwest CMH Affiliation) for the area that includes Crawford, Grand Traverse, Lake, Leelanau, Mason, Missaukee, Oceana, Roscommon, and Wexford Counties. Northwest CMH Affiliation contracts directly with the MDCH to receive Medicaid revenues for Medicaid-qualified services provided to the residents of these counties to administer these Medicaid funds.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the functional level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit of government shall not incur expenditures in excess of the amount appropriated.

During the current year the Authority incurred expenditures in excess of the amounts budgeted as shown on the budget comparison schedule in the back of this report as unfavorable variances.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

NOTE 3. DETAIL NOTES

Cash and Cash Equivalents

At September 30th the carrying amount of the Authority's cash and cash equivalents was as follows:

Cash & Cash Equivalents	2006	2005
Petty Cash	\$2,114	\$2,114
Checking, Savings, And Money Market Accounts	6,475,024	5,470,219
Money Market Account - Restricted	1,141,917	881,906
Certificates of Deposits	609,000	297,000
Totals	\$8,228,055	\$6,651,239

Restricted Cash

The Authority has charged to the Department of Community Health the vested portion of compensated absences as of September 30th. The Authority holds, in a separate bank account, funds restricted for the payment of the compensated absences as they come due.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. The Authority does not have a policy for custodial risk over deposits.

As of the end of the current fiscal year, \$9,881,159 of the Authority's \$10,105,224 bank balance was exposed to custodial credit risk because it was uninsured and uncollateralized.

Deposits which exceed FDIC insurance coverage limits are held at local banks. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits.

As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Investments

State statutes authorize the Authority to invest surplus funds in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments.

The Authority's investment policy complies with the State statutes and has no additional investment policies that would limit its investment choices.

The Authority's investments can be classified into three categories to give an indication of the level of risk assumed. Category 1 includes investments that are insured or registered or securities held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments that are held by the counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent but not in the Authority's name.

At September 30th the investments of the Authority was as follows:

Investment	Category 2	Carrying Amount	Market Value
US Government Securities	\$1,597,677	\$1,597,677	\$1,584,633
US Government Bonds	4,150,000	4,150,000	4,127,170
Total	\$5,747,677	\$5,747,677	\$5,711,803

Interest Rate Risk – Investments

Under State statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Authority's investment policy complies with the State guidelines and seeks to minimize interest rate risk by investing primarily in short-term securities, liquid assets, money market funds, or similar investment pools and limiting average maturities.

The Authority's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority will not be able to recover the value of its investments that are in the possession of an outside party. The Authority requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts.

The Authority does not have any additional policies for custodial credit risk over investments.

Credit Risk - Investments

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks.

The Authority's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer.

Accounts Receivable

Accounts receivable represents amounts due from third party payers, patients, and others.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Due from Other Governmental Units

Due from other governmental units as of September 30th consists of the following:

Due From:	2006	2005
State of Michigan – OBRA	\$207,480	\$101,878
State of Michigan – Elderly Waiver	39,106	39,889
State of Michigan – Child Waiver	90,435	48,204
State of Michigan – Wraparound	23,772	11,326
State of Michigan – Quality Assurance Assessment Program	-	369,119
State of Michigan – Various Other	134,980	144,413
State of Michigan – HSW	151,937	127,103
State of Michigan – Peer Support	95,262	-
Wexford & Missaukee Counties - YESS	48,574	-
Total	\$791,546	\$841,932

Security Deposits

Security deposits consist of amounts paid on behalf of clients for the required initial deposits pursuant to housing rental agreements.

Capital Assets

Capital asset activity for the year ended September 30, 2006 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$160,000	\$1,400,000	-	\$1,560,000
Building & Improvements	5,673,075	4,886,960	-	10,560,035
Vehicles	569,471	65,076	\$63,966	570,581
Equipment	2,404,887	-	-	2,404,887
Sub-total	8,807,433	6,352,036	63,966	15,095,503
Accumulated Depreciation	(4,438,279)	(648,283)	(57,142)	(5,029,420)
Prior Period Adjustment	-	(565,085)	-	(565,085)
Totals	\$4,369,154	\$5,138,668	\$6,824	\$9,500,998

Depreciation expense was charged to Health and Welfare – Mental Health Program.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Deferred Revenue

The amount reported as deferred revenue represents the 5% carry forward allowance for the general fund portion of the Department of Community Health's authorization.

Due to Other Governmental Units

Due to other governmental units as of September 30th consist of the following:

Due To:	2006	2005
State Of Michigan – Inpatient	\$373,374	\$210,795
State of Michigan - QAAP	652,357	-
Other	20,584	-
Total	\$1,046,315	\$210,795

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September and includes employer payroll taxes as follows:

Liability	2006	2005
Wages	\$397,418	\$374,332
FICA	28,955	28,533
Pension Payable	-	146,445
Other	37,707	25,805
Total	\$464,080	\$575,115

Other Liabilities

This liability consists primarily of amounts due for the flexible spending accounts for child care and medical expenses.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Leases

Northern Lakes Community Mental Health Authority has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the financial statements. The following is a summary of the more significant leases.

The Authority has entered into various building leases for the purpose of providing residential facilities. The following is a summary of some of the terms of those leases:

Description/Location	Expires On	Monthly Payments
Jones Lake Road, Grayling Twp.	February 15, 2011	\$2,022
Seneca Street, Cadillac	July 14, 2011	2,459
Evergreen, Roscommon	March 9, 2008	1,325
Woodland, Houghton Lake	November 9, 2007	1,350
Pearl Street, Cadillac	March 8, 2009	2,918
East Bay, Traverse City	July 26, 2007	2,919
Elmwood, Traverse City	September 30, 2006	2,895

The following is a schedule of future minimum rental payments required under the above operating leases that have initial or remaining noncancelable lease terms as of the end of the current fiscal year:

Year Ending September 30 th	Minimum Payments
2007	\$184,831
2008	134,181
2009	106,019
2010	53,771
2011	34,700

Long-Term Debt

Furniture and Equipment Note

On February 15, 2001 the Authority secured a promissory note with Huntington National Bank in the amount of \$250,000 for the purpose of purchasing furniture and equipment. The terms of the note call for 60 monthly payments of \$4,760 and the interest rate is stated at 5.3%. This note was paid in full on February 15, 2006.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Group Home Note

On December 4, 2001 the Authority secured a promissory note with Huntington National Bank in the amount of \$180,000 for the purpose of purchasing a group home. The terms of the note call for 59 monthly payments of \$1,178 starting on January 10, 2002 and one last payment estimated at \$151,309 due on December 10, 2006. The interest rate is stated at 4.81%.

Hall Street Building Capital Lease

On September 24, 1999, the Authority entered into an agreement with the Foundation for Mental Health – Grand Traverse/Leelanau (the Foundation) and a construction contractor for the construction of a new office building; construction was completed in 2001. The Foundation financed the construction via Michigan Strategic Fund Unlimited Obligation Revenue Bonds that were purchased 100% by Huntington National Bank. The bonds are non-recourse to the Foundation and are secured primarily by an assignment of a lease rental payable through a 20 year, non-cancelable lease from the Authority.

On October 1, 2005 the operating lease was converted to a capital lease. Land and buildings were capitalized at their historical cost less accumulated depreciation. The balance due on the bonds was recorded as a loan payable. A prior period adjustment was recorded to reflect the difference between the expenditures recorded (rent) and the expenditures allowed had the lease been originally recorded as a capital lease from the inception of the lease (depreciation and interest).

The capital lease calls for monthly payments of \$40,473, with the final payment due August 1, 2023. The interest rate is stated at 5.59%

The remaining payments, including interest of \$2,906,954, due for each year on the above loans are as follows:

Fiscal Year Ending September 30th	Payments
2007	\$634,280
2008	481,452
2009	481,452
2010	481,452
2011	481,452
2012-2016	2,407,260
2017-2021	2,407,260
2022-2023	922,783

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Compensated Absences

Vacation

North West Clinical Union Staff - The Authority's policy allows employees to accumulate up to 240 hours of vacation time. Any excess accumulation shall be forfeited. Amounts accumulated are to be paid to an employee and recognized as an expense either when vacations are actually taken or upon termination of employment.

Paid Time Off

All Other Staff – The Authority's policy allows full time employees to accumulate paid time off at various rates, depending on the employee's length of service with the Authority. Amounts accumulated up to a maximum of 75 days are to be paid to the employee and recognized as an expense either when paid time off is used or upon termination of employment. Employees can choose to be compensated for up to 22 days annually. However, accumulated paid time off can not be reduced below 20 days.

Personal

North West Clinical Union Staff - The Authority's policy allows employees 64 hours of personal leave per year. Any balance of unused personal leave hours remaining shall be paid at the employee's prevailing hourly rate each year. Unused personal leave is paid out upon termination.

Compensated absences liability, including related FICA and retirement, is \$1,198,520 and \$967,440 for 2006 and 2005, respectively.

Change in Long-Term Debt

The following is a summary of the changes in the long-term debt for the current year:

Debt	Beginning Balance	Additions	Reductions	Ending Balance
Promissory Note - \$250,000	\$22,967	-	\$22,967	-
Promissory Note - \$180,000	161,521	-	9,329	\$152,192
Compensated Absences	967,440	\$231,080	-	1,198,520
Building	-	5,421,380	183,135	5,238,245
Totals	\$1,151,928	\$5,652,460	\$215,431	\$6,588,957

Interest expense for the year ended September 30, 2006 was \$306,142.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

Prior Period Adjustment

Prior period adjustments shown in this report represents the adjustment to net assets and due to the following:

Adjustment To Net Assets	2006	2005
Medicaid Funds Transferred In - West Michigan CMH	\$621,204	-
DCH Cost settlement adjustments – 9/04	-	(\$202,390)
DCH Cost settlement adjustments – 9/05	14,526	-
Other	-	42,536
Adjustments to net fixed assets	221,060	-
Total Increase (Decrease) To Net Assets	\$856,790	(\$159,854)

Prior period adjustments represent the adjustment to fund balance due to the following:

Adjustment To Net Assets	2006	2005
Medicaid Funds Transferred In - West Michigan CMH	\$621,204	-
DCH Cost settlement adjustments – 9/04	-	(\$202,390)
DCH Cost settlement adjustments – 9/05	14,526	-
Other	-	42,536
Adjustments related to capital outlay	221,060	-
DCH cost settlement – 9/05, internal service fund	55,059	-
Total Increase (Decrease) To Net Assets	\$911,849	(\$159,854)

Restrictions and Reserves

A portion of the net assets has been restricted equal to the net amount available in the Internal Service Fund (risk management) which as been set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

In the fund level financial statements a portion of the fund balance at September 30th has been reserved equal to the amount of security deposits, since security deposits do not constitute "available spendable resources."

In the fund level financial statements a portion of the fund balance at September 30th has been designated for the unfunded portion of the defined benefit pension plan obligation.

Transfers Between Funds

The Authority transferred \$957,675 from the General Fund to the Internal Service Fund during the fiscal year. The transfer is in accordance with the criteria established by the Michigan Department of Community Health to meet expected future risk corridor requirements of the managed care specialty supports and services program contracts.

NOTE 4. OTHER INFORMATION

Compliance Audits

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures, which may be disallowed by the granting agencies.

Pension Plans

DEFINED BENEFIT PLAN

Plan Description

The Authority, (Northern Lakes Community Mental Health) contributes to the Michigan Municipal Employees Retirement System ("MMERS"), an agent multiple employer system administered by the MMERS retirement board that covers some of the employees of the Authority. The Authority's defined benefit plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. There were 63 active members at December 31, 2005, the most recent actuarial valuation for the Authority. The State of Michigan Public Act No. 427 of the Public Acts 1984 is the authority under which benefit provisions and obligations to contribute are established and amended.

Employees with 6-8 or more years of service are entitled to annual pension benefits beginning at normal retirement age (55). There are options for early retirement based on number of years of service. Normal benefits are 2.25% to 2.5% of final average compensation multiplied by total years of credited service.

Funding Policy

MMERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The funding policy of the Authority is to make contributions equal to the actuarially determined required annual contribution. There are no member contribution requirements. For the year ended September 30, 2006, the Authority contributed \$626,827 based on the monthly contribution requirements provided by the plan actuary. An additional contribution of \$1,400,000 was also made for the year ended September 30, 2006. As of September 30, 2006, there were 63 active employees.

Northern Lakes Community Mental Health Authority
Notes To Financial Statements

The contribution requirements of the Authority and its members are established and may be added by the Retirement Board of MMERS. The Authority's annual pension cost was equal to these required and actual contributions.

Actuarial Valuation Assumptions

Valuation date	December 31, 2005
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll, open basis
Remaining amortization period	30 years
Asset valuation method	Cost
Investment rate of return	8.0%
Projected salary increases	4.5%

GASB 25 Information (as of December 31, 2005)

Retirees and beneficiaries currently receiving benefits	\$8,318,978
Terminated employees (vested former members) not yet receiving benefits	1,833,098
Current employees – Accumulated employee contributions including allocated investment income	60,143
Employer financed	8,231,679
Total actuarial accrued liability	18,443,898
Net assets available for benefits at actuarial value (Market value is \$15,047,167)	15,454,403
Unfunded (Overfunded) actuarial accrued liability	\$2,989,495

GASB 27 Information (as of December 31, 2005)

Fiscal year beginning	January 1, 2007
Annual required contributions (ARC)	\$552,468
Amortization factor used – underfunded liabilities (24 years)	0.061616
Amortization factor used – underfunded liabilities (30 year level \$)	0.085453

Additional information regarding this plan can be obtained by requesting the publicly available financial statements from: Municipal Employees' Retirement System of Michigan, 447 N. Canal St., Lansing, MI 48917

DEFINED CONTRIBUTION PLAN

The Authority sponsors the "Northern Lakes Mental Health Defined Contribution Plan" created in accordance with the Internal Revenue Code Section 401 (a). Participants with 1,000 hours of service during a plan year vest 25% each year for the first four years of service and 100% vested thereafter. The Authority is required to contribute an amount equal to 7.5% of the participant's compensation.

The plan is administered by the third party trustees and plan provisions and contribution requirements can only be amended by authorization of the Board of Directors. As of September 30, 2006, there were 204 active employees. Total contributions amounted to \$556,727 for the year ended September 30, 2006. Employees do not contribute to the plan.

Risk Management

The Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for liability, vehicle physical damage, and property and crime.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all costs, including damages, indemnification, and allocated loss adjustment expenses for each occurrence that is within the Authority's Self Insured Retention (SIR). The Authority's SIR is \$250 per vehicle for vehicle physical damage and \$250 per occurrence for property and crime.

The Authority's coverage limits include \$15,000,000 for liability, \$1,500,000 for vehicle physical damage, and between \$10,000 and \$200,000 for property and crime.

Economic Dependency

Revenues paid either directly or indirectly by the Michigan Department of Community Health represent over 90% of the Authority's total revenues.

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Budgeted Amounts			Favorable (Unfavorable) Variances Between Actual and Final Budget
	Original	Final	Actual	
Revenues				
State Grants				
Department of Community Health Grant	\$6,059,914	\$6,388,990	\$6,450,697	\$61,707
Adult Benefit Waiver	575,000	575,000	619,753	44,753
MI Child	40,550	41,800	41,651	(149)
Title XX	9,002	9,002	9,002	-
Food Stamps	31,616	31,616	32,114	498
Birchwood	336,034	336,034	336,034	-
Elderly Waiver	2,240,607	2,240,607	2,237,019	(3,588)
Alzheimers Grant	16,652	16,652	16,651	(1)
Respite	100,000	100,000	100,000	-
PAS / ARR Grant	138,000	138,000	148,777	10,777
DCH Block Grants - Other	-	-	6,864	6,864
Total State Grants	9,547,375	9,877,701	9,998,562	120,861
Federal Grants				
DCH Block Grants	419,346	419,346	363,926	(55,420)
Path Homeless Housing	288,309	288,309	225,128	(63,181)
YESS	109,591	109,591	109,591	-
PAS / ARR Grant	414,000	414,000	446,333	32,333
Total Federal Grants	1,231,246	1,231,246	1,144,978	(86,268)
Contributions - Local Units				
County Appropriations	1,026,740	1,026,740	1,053,393	26,653
Charges for Services				
Medicaid	42,938,063	43,957,767	44,066,589	108,822
Medicaid - CMW	253,500	253,500	278,699	25,199
Client and Third Party Pay	665,628	665,628	507,343	(158,285)
Total Charges for Services	43,857,191	44,876,895	44,852,631	(24,264)
Interest and Rents	250,000	250,000	557,946	307,946
Other Revenue	100,654	94,654	205,322	110,668
Total Revenues	56,013,206	57,357,236	57,812,832	455,596

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SPECIAL REVENUE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Budgeted Amounts			Favorable (Unfavorable) Variances Between Actual and Final Budget
	Original	Final	Actual	
Expenditures				
Health & Welfare - Mental Health				
Personnel Costs	\$16,068,488	\$15,947,496	\$15,692,875	\$254,621
Operating Expenditures	39,784,718	41,193,740	39,233,537	1,960,203
Capital Outlay	160,000	216,000	5,786,951	(5,570,951)
Debt Service - Principal	-	-	215,431	(215,431)
Debt Service - Interest	-	-	306,142	(306,142)
Total Expenditures	<u>56,013,206</u>	<u>57,357,236</u>	<u>61,234,936</u>	<u>(3,877,700)</u>
Revenues Over (Under) Expenditures	-	-	(3,422,104)	(3,422,104)
Other financing sources (uses)				
Loan proceeds	-	-	5,421,380	5,421,380
Operating transfers in (out) - internal service fund	-	-	(957,675)	(957,675)
Total other financing sources (uses)	-	-	4,463,705	4,463,705
Excess of revenues and other sources over expenditures and other uses	-	-	1,041,601	1,041,601
Fund Balance, October 1	6,195,237	6,195,237	6,195,237	-
Prior Period Adjustments	-	-	911,849	911,849
Fund Balance, September 30	<u>\$6,195,237</u>	<u>\$6,195,237</u>	<u>\$8,148,687</u>	<u>\$1,953,450</u>

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

INDIVIDUAL FUND STATEMENTS

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF PERSONNEL EXPENDITURES
FOR THE YEAR ENDING SEPTEMBER 30, 2006 AND 2005

	General Fund	
	2006	2005
Personnel Expenditures		
Salaries And Wages	\$10,239,058	\$9,817,033
Fringe Benefits	5,453,817	5,026,181
Total Personnel Expenditures	<u>\$15,692,875</u>	<u>\$14,843,214</u>

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
STATEMENT OF OPERATING EXPENDITURES
FOR THE YEAR ENDING SEPTEMBER 30, 2006 AND 2005

	General Fund	
	2006	2005
Operating Expenditures		
Professional fees and dues	\$475,158	\$307,317
Board per diem	17,955	20,262
Printing, publications, and advertising	101,543	85,986
Supplies	310,426	299,766
Capital outlay under \$5,000	254,467	95,041
Insurance	149,306	147,390
Travel - staff and board	241,665	177,822
Utilities	211,382	193,931
Rents	136,354	619,663
Repairs and maintenance	428,739	361,996
Software/firmware	43,872	39,524
Contractual services	35,287,549	28,230,601
Clubhouse food	26,337	29,705
Third meal	-	824
Client medical services and supplies	184,259	182,967
Vehicle expense	123,066	92,141
Other	258,355	164,721
Transportation - other	472,459	482,404
Respite care	200,675	120,701
Telephone	209,479	198,401
Staff Development	100,491	72,449
Total Operating Expenditures	\$39,233,537	\$31,923,612

The notes to the financial statements are an integral part of this statement.



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Northern Lakes Community Mental Health Authority
Traverse City, Michigan

We have audited the accompanying financial statements of the governmental activities , each major fund, and the aggregate remaining fund information of Northern Lakes Community Mental Health Authority (the Authority) as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated January 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the Authority in a separate letter dated January 17, 2007.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.



Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 17, 2007

Northern Lakes Community Mental Health Authority
Schedule Of Expenditures Of Federal Awards
For The Year Ended September 30, 2006

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Grant / Project Number	Approved Grant Award Amount	Current Year Expenditures	GPFS Federal Revenue Recognized	GPFS Page
Department of Health and Human Services						
Passed Through The Michigan Department of Community Health: Medical Assistance Programs - OBRA/PASARR Screening	93.778	NA	NA	\$446,333	\$446,333	
Department of Community Mental Health Block Grants:						
Strong Families / Safe Children	93.958	SFSC-04-57003, 83003	40,000	40,000	40,000	
Drop In Program Development	93.958	05B1CMHS-03 20622	4,527	4,527	4,527	
Respite Services	93.958	05B1CMHS-03 27540	15,736	15,736	15,736	
Parent Management Training	93.958	05B1CMHS-03	25,000	25,000	25,000	
Intervention Assessments	93.958	05B1CMHS-03 20507	24,500	23,834	23,834	
CVM, Inc. Action Plan 2006	93.958	05B1CMHS-03 20508	8,300	8,300	8,300	
Clubhouse Training	93.958	05B1CMHS-03 20509	5,000	5,000	5,000	
Peer Support Specialists	93.958	05B1CMHS-03 20649	169,600	159,178	159,178	
Co-Occurring Disorders	93.958	05B1CMHS-03	72,700	34,555	34,555	
Wraparound	93.958	05B1CMHS-03 27541	50,000	47,796	47,796	
Total For 93.958				363,926	363,926	
YES	93.556	DEL-05-57001	109,591	109,591	109,591	
Path-Supportive Housing	14.235	M128B30001	69,668	55,491	55,491	
Path-SHP Supportive Services	93.150	SMX060023K	40,400	9,170	9,170	
Path Homeless Housing	93.150	SMX060023K	178,241	160,467	160,467	
Total For 93.150				169,637	169,637	
TOTALS				\$1,144,978	\$1,144,978	5

The notes to the financial statements are an integral part of this statement.

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
SEPTEMBER 30, 2006

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Northern Lakes Community Mental Health Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- Projects to Assist in the Transition from Homelessness (PATH) Program - CFDA #93.150 and #14.235; and Department of Community Health Block Grant (Peer Support Specialist) - CFDA #93.958, were audited as a major programs and represents 34% of federal program expenditures.
- The threshold for distinguishing Type A and B programs was \$300,000.
- Expenditures on this schedule reconcile with amounts reported in the financial statements and financial reports submitted to the Michigan Department of Community Health.

NOTE 3 – RECONCILIATION OF FEDERAL REVENUE

The current year expenditures on the schedule of expenditures of federal awards agree to the federal revenue reported in the financial statements.



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Northern Lakes Community Mental Health Authority
Traverse City, Michigan

Compliance

We have audited the compliance of Northern Lakes Community Mental Health Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, that are applicable to each of its major federal programs for the year ended September 30, 2006. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Northern Lakes Community Mental Health Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

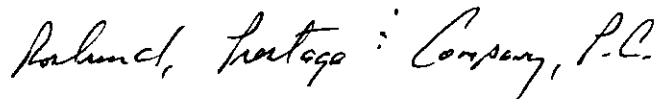
Internal Control Over Compliance

The management of Northern Lakes Community Mental Health Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 17, 2007

NORTHERN LAKES COMMUNITY MENTAL HEALTH AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COST
YEAR ENDED SEPTEMBER 30, 2006

SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's opinion issues:	Unqualified.
Internal control over financial reporting:	
▪ Material weakness(es) identified?	No.
▪ Reportable condition(s) identified that are not considered to be material weakness(es)?	None reported.
Noncompliance material to financial statements noted?	No.

FEDERAL AWARDS

Internal control over major program:	
▪ Material weakness(es) identified?	No.
▪ Reportable condition(s) identified that are not considered to be material weakness(es)?	None reported.
Type of auditor's report issued on compliance for major programs:	Unqualified.
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No.
Dollar threshold used to distinguish between type A and type B programs:	\$300,000.
Auditee qualified as low-risk auditee?	Yes.
Identification of major programs:	Projects to Assist in the Transition from Homelessness (PATH) Program - CFDA#93.150 and #14.235; and Department of Community Health Block Grant (Peer Support Specialist) - CFDA #93.958.

FINANCIAL STATEMENT FINDINGS

None.



MANAGEMENT LETTER

Board of Directors
Northern Lakes Community Mental Health Authority
Traverse City, Michigan

In planning and performing our audit of the financial statements for Northern Lakes Community Mental Health Authority for the fiscal year ended September 30, 2006, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated January 17, 2007 on the financial statements of Northern Lakes Community Mental Health Authority.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

January 17, 2007

Northern Lakes Community Mental Health Authority
Management Letter

STATUS OF PRIOR YEAR COMMENTS AND RECOMMENDATIONS

We were pleased to see that management has implemented many of the recommendations we included in our previously issued Management Letter. We commend you on your efforts to strengthen internal controls and operating efficiencies.

We have listed below the comments and related recommendations we included in our previously issued Management Letter in which the recommendations we suggested, or an appropriate alternative, have not been fully implemented as of the date of this report.

Budget

Prior Year Comment and Recommendation

Budget-To-Actual statements are required to be presented in the audit report on the modified accrual basis. Budgets often are prepared to comply with the reporting format requested by the Department of Community Health and may include items that are found in both the full accrual and modified accrual basis (i.e., principal payments, capital outlay, depreciation, compensated absences, gains and losses on disposal of assets, loan proceeds).

We recommend that management review, and modify if necessary, the annual budget to assure that it is prepared on the modified accrual basis for presentation in the annual audit report. This budget should then be adopted by the board in addition to, if necessary, any other budgets adopted on another basis.

Current Status

The recommendation we suggested in our previously issued Management Letter has not been implemented as of the date of this report.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

Review Vendor Lists

We recommend that management periodically review vendor lists for any unusual patterns, such as names that may be similar, but not identical to the names of approved vendors and vendors that have multiple addresses. In addition, the person periodically should inspect files of unpaid invoices and vendor statements to look for invoices that appear different from the norm; consecutive vendor invoice numbers; preprinted and not customized forms; different delivery addresses; different telephone numbers, purchase order numbers, item descriptions, prices, or other unusual patterns; old or unusual vendors who recently had an address change; or current activity on an old or outdated vendor. Such a review can detect possible fraud involving accounts payable.

If the validity of a vendor is questioned, an appropriate person should take steps to verify the vendor's existence. Perhaps the most effective way to verify a vendor is to call the vendor and visit the vendor's facilities.

Alternatively, an appropriate person can consult other information sources, such as the Better Business Bureau, credit reporting companies (such as Dun & Bradstreet), crisscross and telephone directories, secretary of state incorporation records, or local partnership and assumed name records.